

**COUNTY OF SAN BERNARDINO**  
**CALIFORNIA**  
**SPECIAL DISTRICTS**  
**AUDIT REPORT**  
**COUNTY SERVICE AREA NO. 60**  
**APPLE VALLEY AIRPORT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Prepared by:**

**Internal Audits Section**  
**Office of the Auditor/Controller-Recorder**  
**March 30, 2009**

**County of San Bernardino Special Districts  
County Service Area No. 60  
Apple Valley Airport**

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# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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**LARRY WALKER**  
Auditor/Controller-Recorder  
County Clerk

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Assistant Auditor/Controller-Recorder  
Assistant County Clerk

## Independent Auditor's Report

**March 30, 2009**

**Mike N Williams, Director**  
Department of Airports  
825 East Third Street, Room 203  
San Bernardino, CA 92415-0831

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 60 – APPLE VALLEY  
AIRPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

### Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 60 – Apple Valley Airport for the fiscal year ended June 30, 2008.

### Auditor's Report

We have audited the accompanying financial statements of the business-type activities of County Service Area No. 60 – Apple Valley Airport (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2008. These basic financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

AudRpt/ Mike N Williams, Director  
Department of Airports  
March 30, 2009

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the CSA as of June 30, 2008, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The CSA has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA  
Chief Deputy Auditor

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**County of San Bernardino**  
**County Service Area No. 60 - Apple Valley Airport**  
**Statement of Net Assets**  
**June 30, 2008**

	<u><b>Enterprise Fund</b></u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 4,926,312
Taxes receivable	577,951
Interest receivable	49,614
Other receivable (Note 3)	13,029
Due from other governments	72,697
Total current assets	<u>5,639,603</u>
Noncurrent assets:	
Other receivable (Note 3)	168,063
Capital assets (Note 4):	
Land	3,076,135
Construction in progress	2,307,440
Improvements to land	5,707,186
Structures and improvements	6,391,238
Equipment and vehicles	653,484
Less accumulated depreciation	<u>(3,923,810)</u>
Total noncurrent assets	<u>14,379,736</u>
Total assets	<u><u>\$ 20,019,339</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 185,258
Retentions payable	186,686
Due to other governments	22,116
Deferred revenue (Note 1)	33,264
Total liabilities	<u>427,324</u>
<b>NET ASSETS</b>	
Invested in capital assets	14,211,673
Unrestricted	5,380,342
Total net assets	<u>19,592,015</u>
Total liabilities and net assets	<u><u>\$ 20,019,339</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino**  
**County Service Area No. 60 - Apple Valley Airport**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Fiscal Year Ended June 30, 2008**

	<u>Enterprise Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 433,787
Total operating revenues	<u>433,787</u>
<b>OPERATING EXPENSES</b>	
Professional services	792,583
Services and supplies	200,367
Utilities	121,298
Rents and leases	23,667
Depreciation	<u>528,622</u>
Total operating expenses	<u>1,666,537</u>
Operating Income (Loss)	<u>(1,232,750)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest & investment income	251,624
Property taxes	2,192,760
Other taxes	632,114
State aid	47,037
Federal aid	466,200
Other nonoperating revenues	<u>17,623</u>
Total nonoperating revenues (expenses)	<u>3,607,358</u>
Change in net assets	2,374,608
<b>Total net assets - beginning</b>	<u>17,217,407</u>
<b>Total net assets - ending</b>	<u><u>\$ 19,592,015</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from user charges	\$ 464,217
Payments to suppliers of goods and services	<u>(1,565,955)</u>
Net cash provided (used) by operating activities	<u>(1,101,738)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Taxes received	2,430,210
Federal and state aid received	513,237
Payment received towards other receivable	6,514
Other nonoperating revenue	<u>17,623</u>
Net cash provided (used) by noncapital financing activities	<u>2,967,584</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of fixed assets	<u>(2,266,334)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,266,334)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest revenue	<u>257,024</u>
Net cash provided by investing activities	<u>257,024</u>

Net increase (decrease) in cash and cash equivalents	(143,464)
Balance -- beginning of the year	<u>5,069,776</u>
Balance -- end of the year	<u><u>\$ 4,926,312</u></u>

**Reconciliation of operating income (loss) to net cash provided  
(used) by operating activities:**

Operating income (loss)	\$ (1,232,750)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	528,622
Changes in accounts and other receivables	27,892
Changes in accounts and other payables	<u>(425,502)</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ (1,101,738)</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting entity**

The County Service Area No. 60 – Apple Valley Airport (CSA) – is a special district located within the County of San Bernardino. The CSA was established by an act of the Board of Supervisors of the County of San Bernardino (County) on December 19, 1966 to provide and maintain public airports and landing places for aerial traffic and related activities. Currently, the CSA funds the operations and maintenance of Apple Valley Airport, which is administered and staffed by the County of San Bernardino Department of Airports. The Board of Supervisors has established and appoints a seven (7) member Airport Commission which advises the Department of Airports on matters related to the operation of County owned airports and the Apple Valley Airport

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 60 and are not intended to present the financial position of the County taken as a whole.

Because the CSA meets the reporting entity criteria established by the Governmental Accounting Standards Board (GASB), the CSA's financial statements have also been included in the Comprehensive Annual Financial Report of the County as a "component unit" for the fiscal year ended June 30, 2008.

**Measurement focus, basis of accounting, and financial statement presentation**

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise funds is charges to customers for rental of hangars and other leases. Operating expenses for enterprise funds include the



**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

cost of services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The Department of Airports allocates the cost of salaries and benefits, administrative services, and management services to the CSA. These costs are presented on the financial statements as professional services, an operating expense.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium-term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the CSA's accounts based upon the CSA's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the CSA annually. Cash and cash equivalents are shown at fair value as of June 30, 2008.

**Receivables and payables**

All receivables are shown net of an allowance for uncollectibles when applicable.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Property taxes**

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties after December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties after August 31.

**Capital assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and improvements	up to 45 years
Equipment and vehicles	5 – 15

**Deferred revenue**

Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met, are recorded on the basic financial statements as deferred revenue. The CSA has deferred revenues of \$33,264 from rents and concessions at June 30, 2008.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued***

**Net assets**

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consist of net assets of the CSA that are not restricted for any project or other purpose.

**Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code. State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$4.12 billion at June 30, 2008.

As of June 30, 2008, the fair value of the County Pool was \$4.44 billion. Approximately 8% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2008, \$20.9 million of the amounts deposited in the County

**County of San Bernardino**  
**County Service Area No. 60 - Apple Valley Airport**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS - Continued**

pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of pool values during the year ended at June 30, 2008. The pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2008 was 4.53%.

A summary of the investments held by the County Treasurer is as follows (amounts in thousands):

<b>Investment Type</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Interest Rate Range (%)</b>	<b>Maturity Range</b>	<b>Average Maturity</b>
U.S. Treasury Securities	\$ 14,984	\$ 15,058	3.36%	10/15/08	107
U.S. Government Agencies	2,496,871	2,501,610	2.49% - 5.53%	7/9/08 - 4/18/11	533
Negotiable Certificates of Deposit	781,725	780,075	2.38% - 3.02%	7/1/08 - 2/27/09	66
Commercial Paper	525,246	528,556	2.36% - 2.91%	7/1/08 - 11/28/08	37
Corporate Notes	197,502	194,780	2.72% - 5.69%	8/15/08 - 1/4/09	373
Money Market Mutual Funds	215,000	215,000	2.53%	7/1/08	1
Repurchase Agreements	100,000	100,000	2.57%	7/1/08	1
<b>Total Treasurer's Pooled Investments</b>	<b>\$ 4,331,328</b>	<b>\$ 4,335,079</b>			
<b>Investments Controlled by Fiscal Agents:</b>					
Money Market Funds	19,403	19,403			
Mutual Funds	17,187	17,187			
Guaranteed Investment Contracts	35,918	35,918			
U.S. Treasury Securities	82,612	82,612			
U.S. Agency Discount Notes	6,581	6,581			
<b>Total Investments Controlled by Fiscal Agents</b>	<b>\$ 161,701</b>	<b>\$ 161,701</b>			
<b>Total Investments</b>	<b>\$ 4,493,029</b>	<b>\$ 4,496,780</b>			
<b>Cash in Banks:</b>					
Non-Interest Bearing Deposits		\$ 35,807			
<b>Total Cash and Investments</b>		<b>\$ 4,532,587</b>			

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS - *Continued***

<u>Investment Type</u>	<u>S&amp;P Rating</u>	<u>Moody's Rating</u>	<u>Fitch Rating</u>	<u>Maximum Allowed % of Portfolio</u>	<u>Individual Issuer Limitations</u>	<u>% of Pool 06/30/08</u>
U.S. Treasury Securities	AAA	Aaa	AAA	100%	None	0.30%
U.S. Government Agencies	AAA	Aaa	AAA	75%	None	57.70%
Negotiable Certificates of Deposit	A1+	P1	F1+	30%	\$100MM	18.00%
Commercial Paper	A1+	P1	F1+	40%	10\$	12.20%
Corporate Notes	AA	Aa1	AA+	10%	\$50MM	4.50%
Money Market Mutual Funds	AAA	Aaa	AAA	15%	10%	5.00%
Repurchase Agreements	A1	P1	F1+	40%	None	2.30%

**Investment authorized by debt agreement**

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

**Investment credit risk**

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer. As of June 30, 2008, all investments held by the County pool were within policy limits.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS - *Continued***

**Concentration of credit risk**

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five percent or more of total investments held.

This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments.

As of June 30, 2008, the following issuers represented more than five percent of the County pool balance (amounts in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
FNMA	\$ 764,170	17.63%
FHLB	\$ 714,683	16.49%
FHLMC	\$ 576,214	13.28%
FFCB	\$ 446,543	10.30%

**Interest rate risk**

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS – Continued**

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2008, all investments held by the County Pool were within policy limits. A summary of investments for maturity range, maturity limits, maturity average and effective duration is as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity Range (Days)</b>	<b>Maturity Limits</b>	<b>Average Maturity</b>	<b>Effective Duration</b>
U.S. Treasury Securities	\$ 15,058	107	5 Years	66	0.29
U.S. Government Agencies	2,501,610	9 - 1,022	5 Years	37	1.28
Negotiable Certificates of Deposit	780,075	1 - 242	365 days	373	0.18
Commercial Paper	528,556	1 - 151	270 days	533	0.1
Corporate Notes	194,780	46 - 492	18 months	1	0.97
Money Market Mutual Funds	215,000	1	Daily Liq.	1	0.003
Repurchase Agreements	100,000	1	180 days	107	0.003
Total Securities	<u>\$ 4,335,079</u>			<u>311</u>	

**Custodial credit risk**

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, the carrying amount of the County's deposits was \$35.8 million and the corresponding bank balance was \$96.5 million. The difference of \$60.7 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$96.3 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties

**County of San Bernardino  
County Service Area No. 60 - Apple Valley Airport  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2008**

**NOTE 2: CASH AND INVESTMENTS – Continued**

to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

A separate financial statement is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2008 (amounts in thousands):

<b>Statement of Net Assets</b>	
Equity of internal pool participants	\$ 1,717,967
Equity of external pool participants:	
Voluntary	209,520
Involuntary	2,407,592
Total Net Assets held for pool participants	<u>\$ 4,335,079</u>

  

<b>Statement of Changes in Net Assets</b>	
Net Assets at July 1, 2007	\$ 3,964,496
Net change in investments by pool participants	370,583
Net Assets at June 30, 2008	<u>\$ 4,335,079</u>

As of June 30, 2008, Cash and Investments of \$4,926,312 are classified in the accompanying financial statements as follows:

	Total Governmental Activities	Total Business-type Activities	Total Fiduciary Funds	Total
Cash and Cash Equivalent	\$ -	\$ 4,926,312	\$ -	\$ 4,926,312
Total Cash and Investments	<u>\$ -</u>	<u>\$ 4,926,312</u>	<u>\$ -</u>	<u>\$ 4,926,312</u>

**NOTE 3: OTHER RECEIVABLE**

The CSA entered into four separate agreements with Apple Valley Ranchos Water Company (Utility) to construct distribution facilities for the purpose of furnishing public utility water service to the Apple Valley Airport. The CSA advanced the amount of \$260,585 to cover the cost of these facilities. The CSA is reimbursed by the Utility 2 1/2 percent of the cost per year for 40 years. The amount outstanding at June 30, 2008, is \$181,092. Of this amount \$13,029 is the current other receivable and \$168,063 is the noncurrent other receivable.



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**NOTE 4: CAPITAL ASSETS**

Capital assets activities during the year are as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 3,076,135	\$ -	\$ -	\$ 3,076,135
Construction in Progress	168,531	2,303,993	165,084	2,307,440
Total capital assets, not being depreciated	3,244,666	2,303,993	165,084	5,383,575
Capital assets, being depreciated:				
Land Improvements	5,542,102	165,084	-	5,707,186
Structures	6,391,238	-	-	6,391,238
Equipment and Vehicles	504,457	149,027	-	653,484
Total capital assets, being depreciated	12,437,797	314,111	-	12,751,908
Less accumulated depreciation for:				
Land Improvements	(1,937,564)	(314,875)	-	(2,252,439)
Structures	(1,194,877)	(162,862)	-	(1,357,739)
Equipment and Vehicles	(262,747)	(50,885)	-	(313,632)
Total accumulated depreciation	(3,395,188)	(528,622)	-	(3,923,810)
Total capital assets, being depreciated, net	9,042,609	(214,511)	-	8,828,098
<b>Capital assets, net</b>	<b>\$ 12,287,275</b>	<b>\$ 2,089,482</b>	<b>\$ 165,084</b>	<b>\$ 14,211,673</b>

**Construction in Progress**

Construction in progress represents the following projects:

Project Title	Budget	Expenses as of 06/30/2008	Projected Fiscal Year of Completion
Apple Valley Hangar Complex	1,500,000	1,829,156	2009
Sign and Electrical Upgrades	976,070	473,981	2009
Reconstruct Existing Access Road	200,000	4,303	2010
<b>Total</b>		<b>\$ 2,307,440</b>	

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**NOTE 5: RETENTIONS PAYABLE**

The CSA retains a percentage of construction contracts until contracts are completed and approved. At June 30, 2008, the CSA's Retentions Payable balance was \$186,686, of which, \$168,454 is related to the Apple Valley Airport - Phase II Hangers project and \$18,232 is related to the Sign and Electrical Upgrades project.

**NOTE 6: FEDERAL AND STATE GRANTS**

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds.

**NOTE 7: SELF INSURANCE**

The CSA is insured through the County's self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$35 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claims made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an internal service fund), except for unemployment insurance, and employee dental insurance, which are accounted for in the County's General Fund. The incurred but not reported (IBNR) and incurred but not settled (IBNS) liabilities stated on the Risk Management fund's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses.

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**NOTE 7: SELF INSURANCE - *Continued***

The liabilities for these claims are reported using a discounted rate of 2.75%. It is the Department's practice to obtain actuarial studies on an annual basis.

The total claims liability of 149.3 million reported on the Risk Management fund's balance sheet at June 30, 2008 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2007 and 2008 were:

<b>Fiscal Year</b>	<b>Beginning of Fiscal Year Liability (in thousands)</b>	<b>Current-Year Claims and Changes in Estimates (in thousands)</b>	<b>Claims Payments (in thousands)</b>	<b>Balance at Fiscal Year-End (in thousands)</b>
2006-07	\$127,233	\$34,312	(\$31,862)	\$129,683
2007-08	\$129,683	\$51,702	(\$32,064)	\$149,321